

FACT SHEET

“Medicaid Formula Fairness Act of 2005”

The Medicaid Formula Fairness Act, introduced by Rep. John D. Dingell, is designed to protect Federal funding under the Medicaid program. Medicaid provides health insurance for more than 50 million Americans each year and ensures the most vulnerable among us have access to health care. The legislation would help protect States from reductions in the amount of money the Federal Government contributes to pay for Medicaid in FY2006. These cuts result from changes to the payment formula made by the Centers for Medicare and Medicaid Services (CMS). The legislation will limit the loss of Federal funding to States and will protect the vulnerable populations Medicaid serves, as well as essential safety net providers. Much of the bill is similar to S. 1007 introduced by Senators Bingaman, Snowe, Rockefeller, Hutchison, and Jeffords.

In order to protect against large fluctuations in Medicaid funding available to a State, the amount the Federal Government contributes is based on a formula which includes the most recent three years of data on per capita income. For the coming year, FY2006, the formula is based on data from 2001, 2002, and 2003. In 2004, the Department of Commerce, which provides the data and analysis used by CMS for determining Federal funding for States under Medicaid, revised its calculation of per capita income (PCI). CMS, rather than apply the new data to 2003, the newest year in the Federal medical assistance percentage (FMAP) formula, applied the new data to previous years as well. The end result was a large decrease in Federal funding for 29 States.

Typically, there are only marginal changes in Federal matching rates from one year to the next. As a result of CMS's actions, however, 15 States are projected to have greater than a 1 percentage point decrease in their Federal funding. The largest projected percentage point decreases are for Alaska (-7.42), Wyoming (-3.67), New Mexico (-3.15), Oklahoma (-2.27), Maine (-1.99), West Virginia (-1.66), North Dakota (-1.64), Vermont (-1.62), Utah (-1.38), Montana (-1.36), Alabama (-1.32), Louisiana (-1.25), Nevada (-1.14), and Mississippi (-1.08).

For many States, these funding cuts come on top of cuts in the preceding two years as well. Thirteen states (Alaska, Kentucky, Louisiana, Maine, Montana, New Mexico, North Dakota, Oklahoma, Rhode Island, Vermont, West Virginia, Wisconsin, and Wyoming) will face three consecutive years of reductions. For many States, the cumulative five-year reduction is unprecedented – Wyoming (-10.37), Alaska (-9.97), North Dakota (-4.14), Vermont (-3.91), Oklahoma (-3.33), Maine (-3.22), and South Dakota (-3.24).¹

In an effort to minimize the dramatic fluctuations in the FY2006 Federal funding, the legislation would limit the loss of State funding in the FMAP II out in 2006 to 0.5 percentage points. This would restore \$442 million of the lost Medicaid dollars to 18 States. An additional 10 States would be given \$229 million to account for the retroactive calculations of per capita income. The total relief of \$671 million is still far less than the \$860 million lost to the 29 States by Federal funding reductions, but will help protect coverage for many vulnerable populations. See Table 1 for the State-by-State impact of the legislation.

¹ Federal Funds Information for States, “Issue Brief 04-41: FY 2006 FMAPs,” September 28, 2004.

The legislation also includes a provision to protect States against decreases in Federal funding due to significant transfers of funds by employers into under-funded pension plans. When such a transfer is made, it is included in the income calculation. For any State where a pension transfer accounted for more than 30 percent in the increase in that State's per capita income for a year, the bill excludes that amount from the PCI calculation. This protects States against unplanned actions by employers to shore up retirement funding which then cause the State to lose funding for health insurance programs.

TABLE 1—STATE-BY-STATE IMPACT OF THE “MEDICAID FORMULA FAIRNESS ACT”

| STATE | INCREASED FUNDING UNDER LEGISLATION |
|----------------|-------------------------------------|
| Alaska | \$64.1 million |
| Alabama | \$34.2 million |
| Arizona | \$22.3 million |
| Arkansas | \$14.2 million |
| Florida | \$25.1 million |
| Georgia | \$7.5 million |
| Idaho | \$5.1 million |
| Indiana | \$8.1 million |
| Iowa | \$2.0 million |
| Kansas | \$3.0 million |
| Kentucky | \$3.9 million |
| Louisiana | \$44.0 million |
| Maine | \$34.9 million |
| Michigan | \$30.2 million |
| Mississippi | \$21.7 million |
| Missouri | \$1.3 million |
| Montana | \$6.2 million |
| Nevada | \$16.9 million |
| New Mexico | \$66.4 million |
| North Carolina | \$14.4 million |
| North Dakota | \$6.4 million |
| Ohio | 9.6 million |
| Oklahoma | \$51.7 million |
| Ohio | \$9.6 million |
| Oklahoma | \$51.7 million |
| Oregon | \$6.3 million |
| Rhode Island | \$8.1 million |
| South Carolina | \$6.2 million |
| South Dakota | \$2.8 million |
| Tennessee | \$26.6 million |
| Texas | \$112.8 million |
| Utah | \$13.5 million |
| Vermont | \$10.1 million |
| West Virginia | \$27.4 million |
| Wisconsin | \$9.5 million |
| Wyoming | \$13.0 million |

*Table prepared by Committee on Energy and Commerce Democratic staff
Data source: Oklahoma Health Care Authority and the Congressional Research Service*